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PARM, EPET, N2, XV, IN, IR, IZ, KN, AF, CH
SUBJECT: (U) Secretary Rice's July 26, 2008, Meeting
with New Zealand National Party Leader John Key

11. (U) Classified by: Kenneth Merten, Deputy Executive
Secretary, S/ES, Department of State. Reason 1.4 (d).

12. (U) July 26, 2008; 3:30 p.m.; Auckland, New Zealand.

13. (U) Participants:

U.S.
The Secretary
Ambassador McCormick
A/S Sean McCormack, PA
LTG William Fraser, JCS
DAS Scot Marciel, EAP
Consul General John Desrocher (notetaker)

NEW ZEALAND
National Party Leader John Key
Murray McCully, MP and Foreign Affairs Spokesman,
National Party Wayne Eagleson, National Party Leader's
Chief of Staff Elizabeth Halliday, Deputy Director,
Americas Desk, Ministry of Foreign Affairs and Trade
(notetaker)

14. (S) SUMMARY: The Secretary emphasized to New
Zealand's opposition leader, John Key, that any New
Zealand opposition to the U.S.-India nuclear agreement
would be "serious." On nonproliferation issues, she
expressed satisfaction with the situation in North Korea
and concern about Iran's activities. She described a
"clearly improving" situation in Iraq, while noting
Afghanistan's deep poverty meant recovery there would be
a "long struggle." U.S. relations with China were the
best they had ever been, though that country's "wholly
mercantilist" approach to the developing world was
worrisome. Key pledged to continue a bipartisan
approach to New Zealand's relationship with the United
States and pressed for a bilateral Free Trade Agreement.
END SUMMARY.

U.S.-India Civil Nuclear Cooperation

15. (S) The Secretary explained the importance of the
U.S.-India nuclear agreement and briefly described how it
would be considered by the IAEA and the Nuclear Suppliers
Group. She stressed that the agreement must be approved
"without conditions." It was key to the U.S.-India
relationship, she said, adding that the Indian leadership
had taken a determined stand in favor of it in the face
of considerable domestic opposition, and it was important
for the global nonproliferation regime. Any vote against
it by New Zealand, the Secretary warned, would be
"serious." Key was unaware of the details of the issue
and did not express a view on the agreement. He did
note, however, that it would be hypocritical of the
developed world to demand carbon emission reductions from
countries like India while simultaneously denying them
the capacity to develop peaceful, civilian nuclear power.

North Korea

16. (S) In answer to a question from Key, the Secretary
said she was "satisfied" rather than "optimistic" about
the situation in North Korea. She was gratified to see
how China had progressed to become an active participant
in the Six Party Talks, a development she described as
China's "coming-out party." The bigger aim, she
stressed, was a new security mechanism for all of
northeast Asia, which then might be expanded further
throughout the region. Noting that "North Korea will
sell anything to anyone," the Secretary said the United
States was satisfied that the DPRK was out of the
plutonium production business, and now must reveal what
it had done with the plutonium it had already
manufactured.

Iran

17. (S) By contrast, the Secretary continued, Iran had
not backed off from its uranium enrichment activities.
Noting recent Iranian missile tests, she said that Iran
was also improving its delivery capabilities. Asked to
explain Ahmedinejad's motivations, the Secretary noted
Iran's desire to be a player in the region, as evidenced
by its increased meddling in Lebanon and Palestine.

Iraq

18. (S) The Secretary described the situation in Iraq as
"clearly improving": the Iraqis were taking charge and
violence was down. The biggest challenges were
improving relations between the provinces and Baghdad
and capacity-building, particularly that of the police.
She warned against tying the withdrawal of foreign
troops to a fixed timetable. Troops should be withdrawn
as the situation on the ground warranted, rather than

according to an arbitrary schedule.

Afghanistan -----

¶9. (S) The situation in Afghanistan, the Secretary said, is "not worse, but different." The Taliban had gained some strength, fed by the country's deep poverty and Pakistan's inability to control its border. Afghanistan would be a "long struggle." Corruption and the drug trade were enormous problems to tackle. The Secretary had high praise for New Zealand's Provisional Reconstruction Team in Bamyan, which she described as a model.

China -----

¶10. (S) Key asked if the Secretary was concerned by China's growing influence and, particularly, its checkbook diplomacy. The Secretary replied that the United States had "never had a better relationship with China" than it had today. The Chinese were particularly grateful that the President had so firmly resisted protectionist responses to China's growth and appreciative of U.S. efforts to tamp down separatism in Taiwan. The Secretary said that, as long as the U.S. kept its military capabilities up, it needn't worry about a security threat from China.

¶11. (S) What was worrisome, she said, was China's "wholly mercantilist" approach to foreign policy, as demonstrated in Sudan, Zimbabwe, and Latin America. China, she said, "could not care less" about good governance in the developing world. She also expressed uncertainty about the Chinese political system's ability to deal with growing income disparities and increasing tensions between urban and rural China.

¶12. (S) Key, a former investment banker, shared his concern about the Chinese banking sector, noting its efforts to control inflation and arguing that a "hiccup" in the sector would have a harsh impact on New Zealand and the global economy. He suggested that China would increasingly use its vast foreign currency reserves to buy into commodity companies, for example, mining firms like BHP and Rio Tinto. This could be prevented by foreign investment regulations. In the case of New Zealand, Key noted that, while the Canadian national pension scheme's attempted purchase of Auckland's airport had caused a public uproar and had ultimately been blocked, China's purchase of the electricity transmission company in Auckland had gone forward almost unnoticed.

Free Trade Agreements -----

¶13. (S) Key noted that the NZ-China FTA had been negatively received by many in New Zealand, a foolish reaction given that New Zealand's economy was nearly completely open to China even before the FTA and that the FTA gave New Zealand, essentially an agricultural economy, better access to one of the largest consumers of agricultural products in the world.

¶14. (S) Key stressed how important an FTA with the United States was for New Zealand, particularly in light of the U.S.-Australia FTA. New Zealand's Closer Economic Relationship (CER) with Australia meant that, over time, New Zealand firms would relocate to Australia to take advantage of that country's FTA with the United States. The Secretary assured Key that, while USTR Schwab was completely occupied with the Doha Round at the moment, the President was determined to be active on the trade agenda right up to the conclusion of his presidency.

Bilateral U.S.-NZ Relations -----

¶15. (S) The Secretary expressed appreciation for strong bilateral cooperation in areas like the Proliferation Security Initiative, maritime security, and the Pacific. Key said that, under his leadership, the National Party would continue to take a non-partisan approach to the U.S. relationship. He noted how the relationship had improved in recent years and expressed hope that it would continue to do so.

¶16. (S) Key noted that the New Zealand economy was weakening, as was much of the developed world's. While New Zealand did not have sub-prime mortgages, it did have non-bank finance companies that were beginning to suffer "in a big way." The New Zealand economy had shrunk in the previous quarter and would do so for at least the next two quarters. New Zealand's domestic debt had doubled in eight years, and the situation was aggravated by increasing food and fuel prices.

Petroleum and Carbon Emissions -----

¶17. (S) The Secretary noted that the United States was suffering from high fuel prices as well. The United States is working actively on alternative fuels, partly because dependence on petroleum benefits troublesome countries like Venezuela and Russia. Signing up to the Kyoto Protocol had been a non-starter for the United States, the Secretary noted, because it would have chopped 1-3 percent off U.S. GDP. The United States would insist that big developing-country polluters like China and India be part of any future climate change agreement.

RICE